Report

of the

Examination of

Commercial Loan Insurance Corporation

Madison, Wisconsin

As of December 31, 2002

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, *Governor*
Jorge Gomez, *Commissioner*

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October 10, 2003

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster
Madison, Wisconsin 53702

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

COMMERCIAL LOAN INSURANCE CORPORATION
MADISON, WISCONSIN

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of the Commercial Loan Insurance Company (“CLIC” or “the company”) was conducted in 1999 as of December 31, 1998. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations are contained in the examination work papers.

The company is exempt from an annual review by an independent accounting firm as prescribed by ch. Ins 50, Wis. Adm. Code.

II. HISTORY AND PLAN OF OPERATION

The company was organized December 21, 1966. The company wrote commercial mortgage guaranty and commercial leasing guaranty insurance coverages. The company has not written any new insurance risks since February 28, 1985. Prior to August, 2001, the company was a wholly owned subsidiary of WMAC Investment Corporation an affiliate of Leucadia National Corporation. On August 6, 2001, PMI Mortgage Insurance Co. acquired 100% interest of the company from the prior owner.

The company is licensed in 47 states, the District of Columbia and Guam to write first mortgage guaranty insurance on commercial properties. However, the company suspended writing new business in 1985, and its current business consists entirely of renewal business on previously written policies. The company is also licensed to write insurance to indemnify against defaults on lease payments on commercial and industrial real estate. However, there are currently no lease guaranty risks in force.

As of December 31, 2002, the company had direct premium in the following states:

Tennessee	$44,929	50%
Idaho	40,474	45
All others	4,285	5
Total	$89,688	100%

The following table is a summary of premiums written by the company in 2002. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Mortgage Guaranty	$89,688	$0	$122	$89,566
Total All Lines	$89,688	$0	$122	$89,566

The run-off of the company's business during the years under examination and the resultant decrease in premium volume is reflected in the following table:

	1999	**2000**	**2001**	**2002**
Gross premiums written	$135,310	$108,381	$88,950	$89,688

The company continues to run-off its existing business. As of December 31, 2002, the company had 45 policies in force. There have been no incurred losses on the company's book of business since 1996.

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of fourteen members. All directors are elected annually to serve a one-year term. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members currently receive no compensation for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Walter R. Haughton Alamo, CA	Chairman of the Board & Chief Executive Officer	2004
Larry S. Smith Alamo, CA	Vice Chairman of the Board, President COO	2004
Victor J. Bacigalupi Pleasant Hill, CA	Senior Executive Vice President, General Counsel and Secretary	2004
Charles F. Broom Fremont, CA	Senior Vice President, Human Resources & Organizational Development	2004
Walter E. Campion Danville, CA	Senior Vice President, Servicing Operations, Loss Mitigation and Claims	2004
Glen S. Corso Lafayette, CA	Senior Vice President, Investor and Corporate Relations	2004
David H. Katkov Moraga, CA	Executive Vice President, National Accounts, Product Development	2004
Donald P. Lofe, Jr. Lisle, Illinois	Executive Vice President, Chief Financial Officer, and Assistant Secretary	2004
Janet W. Parker Oakland, CA	Senior Vice President, National Underwriting Operations	2004
John M. Parsley Danville, CA	Executive Vice President, Field Sales	2004
Daniel L. Roberts Alameda, CA	Executive Vice President, Chief Information Officer, Corporate Technical Solutions	2004
Rhoda R. Rossman Albany, CA	Senior Vice President & Treasurer	2004
Brian P. Shea Berkeley, CA	Vice President & Controller	2004

Anthony D. Shore Elkins Park, PA	Vice President, Assistant General Counsel & Assistant Secretary	2004

Officers of the Company

The officers of CLIC are appointed by the board of directors to serve a one-year term. Each officer of CLIC is an officer of the holding company's parent. Each officer of CLIC also holds the corresponding position in WMAC Credit Insurance Corporation. The two insurers have a shared corps of executive officers.

The officers serving at the time of this examination are as follows

Name	Office	2002 Compensation
W. Roger Haughton	Chief Executive Officer & Chairman of the Board	$1,797,496
L. Stephen Smith	President & Chief Operating Officer	958,990
Victor Bacigalupi	Executive Vice President & Secretary	606,400
David Katkov	Executive Vice President	*
Donald Lofe, Jr.	Executive Vice President & Chief Financial Officer	*
Rhoda Rossman	Senior Vice President & Treasurer	*
Brian Shea	Vice President & Controller	*
Anthony Shore	Vice President	*
Mary Bagala	Assistant Secretary	*

*The officer's compensation amount is not reported on the most recent Executive Compensation Report. Further discussion regarding the company's Executive compensation Report can be found in the section of the report captioned "Summary of Current Examination Results."

Committees of the Board

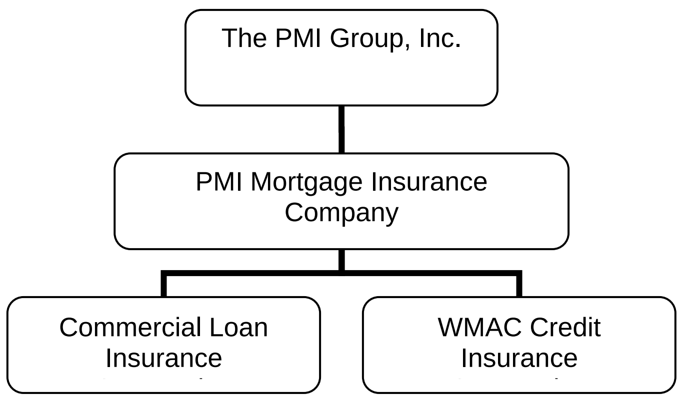
The company's bylaws allow for the formation of certain committees by the board of directors. At the time of the examination, there were no committees established by the board.

IV. AFFILIATED COMPANIES

Commercial Loan Insurance Corporation is a member of a holding company system. Its ultimate parent is The PMI Group, Inc.. CLIC has no employees and all services are provided under a cost allocation agreement with PMI Mortgage Insurance Company. This agreement is further discussed later in this section.

The organizational chart below depicts the relationships among the noted affiliates in the group. A brief description of the significant affiliates of CLIC follows the organizational chart.

Organizational Chart
As of December 31, 2002



The PMI Group, Inc. (TPG)

The PMI Group, Inc., is an insurance holding company organized in December 1993 pursuant to the laws of the State of Delaware. TPG was originally a wholly owned subsidiary of Allstate Insurance Company ("Allstate"), an insurance subsidiary of The Allstate Corporation. In an April 18, 1995, initial public offering, Allstate sold 36.75 million shares of TPG common stock, representing 70% ownership interest of TPG. Subsequent to the 1995 public offering of TPG, Allstate divested all of its remaining 30% ownership interest in TPG through an exchange of 12.9 million shares of TPG common stock to redeem outstanding Allstate exchangeable notes, and through the sale of 2.8 million shares of TPG common stock that remained in Allstate ownership following the Allstate exchange note redemptions.

Through its subsidiary PMI, TPG provides private mortgage guaranty insurance to mortgage lenders in the United States. Other TPG subsidiaries provide mortgage guaranty reinsurance, private mortgage guaranty insurance in Australia and New Zealand, home finance industry risk management products and services, and title insurance.

As of December 31, 2002, TPG's audited financial statements reported total assets of $3.5 billion, total liabilities of $1.3 billion, and shareholders' equity of $2.2 billion. Operations for 2002 produced net income of $346 million on revenues of $1.1 billion.

PMI Mortgage Insurance Co. (PMI)

PMI Mortgage Insurance Co. was incorporated November 10, 1972, as an Arizona stock mortgage guaranty insurance company. From 1973 until 1994, PMI was a wholly owned subsidiary of Allstate Insurance Company; effective November 28, 1994, Allstate contributed all of the outstanding capital stock of PMI to TPG.

PMI writes residential mortgage guaranty insurance, providing primary insurance coverage on first lien mortgage loans and, beginning in 1997, providing a government sponsored mortgage pool insurance product that is used as an element of credit enhancement for secondary market mortgage loan securities transactions. PMI is licensed to engage in mortgage guaranty insurance in all fifty states and in the District of Columbia.

As of December 31, 2002, PMI's audited statutory financial statements reported total admitted assets of $2.7 billion, total liabilities of $2.4 billion, and policyholders' capital and surplus of $267 million. Operations for 2002 produced net income of $353 million on premium revenues of $550 million.

WMAC Credit Insurance Corporation (WMAC Credit)

WMAC Credit Insurance Corporation ("WMAC Credit") was organized on November 10, 1980, as MGIC Credit Insurance Corporation, for the purpose of assuming second mortgage guaranty risks that were written on a direct basis by MGIC Indemnity Corporation. WMAC Credit entered into rehabilitation proceedings effective February 28, 1985, at its own request, due to the liquidation of its parent, Wisconsin Mortgage Assurance Corporation. Under the plan of rehabilitation, WMAC Credit was allowed to run-off its present book of business. On

January 13, 1995, WMAC Credit was removed from rehabilitation, and effective December 31, 1995, control of WMAC Credit was transferred to WMAC Investment Corporation. On August 6, 2001, PMI purchased WMAC Credit.

WMAC Credit continues to run-off its book of 1985 and prior mortgage guaranty business. As of December 31, 2002, WMAC Credit's statutory financial statement reported assets of $4,900,798, liabilities of $77,179, and policyholder surplus of $4,823,619. Operations for 2002 produced a net loss of $25,572 on revenues of $1,328.

Cost Allocation Agreement

This agreement became effective on January 1, 2002, with a term of five years. Subsequent renewals can be made for terms up to three years at a time. Pursuant to the agreement, PMI provides financial, accounting and reporting services, legal services, banking and investment services, other administrative services and management services to CLIC. In consideration for the services provided CLIC agrees to reimburse PMI for its estimated annual costs, which were set forth as $12,000 in the agreement. The amount shall be reimbursed by CLIC in equal quarterly installments. Either party may terminate this agreement at any time by giving 90 days prior written notices. This agreement was inadvertently left out of the company's Form B filing and was not filed with this office for review 30 days before its effective date. This finding is further discussed in the section of this report captioned "Summary of Current Examination Results."

Tax Allocation Agreement

TPG files a consolidated tax return for affiliates in the holding company group. As of December 31, 2002, CLIC filed under this consolidated tax return. The tax allocation agreement was amended subsequent to fieldwork to add CLIC. Under the agreement, the company's tax liability shall equal its tax liability calculated on an individual basis. On each date on which a quarterly payment of estimated tax is due, each affiliate pays an estimated tax payment calculated by TPG. Ultimate settlement of the annual tax liability is made within 30 days of TPG filing the consolidated return.

V. REINSURANCE

Commercial Loan Insurance Corporation's reinsurance portfolio and strategy is described below. The company's reinsurance contracts contained proper insolvency provisions.

CLIC is party to a treaty with Wisconsin Mortgage Assurance Corporation (the former Mortgage Guaranty Insurance Corporation) under which CLIC cedes run-off business to the successor WMAC entity. Transaction activity under the agreement is minimal, with 2002 cessions under the arrangement amounting to $122 of ceded premiums.

The company's only other active reinsurance relationship is the cession to WMAC Credit for the run-off of the 1-to-4 family nonowner-occupied mortgage guaranty coverage, consisting of 7 policies currently in force. This represents an immaterial part of CLIC total exposure due to the small risks involved in the ceded policies. Due to the immateriality of reinsurance to the company's transaction activity, the applicable reinsurance contract is not further summarized in this report.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported in the December 31, 2002, annual statement to the Commissioner of Insurance. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Commercial Loan Insurance Corporation
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 5,735,036		$5,735,036
Cash	1,724,441		1,724,441
Short-term investments	1,427,000		1,427,000
Federal and foreign income tax recoverable and interest thereon	2,391,323	$2,256,832	134,491
Interest, dividends, and real estate income due and accrued	90,779		90,779
Receivable from parent, subsidiaries, and affiliates	32,294		32,294
Write-ins for other than invested assets			
Receivable - other	65,715		65,715
Total Assets	$11,466,588	$2,256,832	$9,209,756

Commercial Loan Insurance Corporation
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Other expenses (excluding taxes, licenses, and fees)	$ 398	
Taxes, licenses, and fees (excluding federal and foreign income taxes)	2,953	
Federal and foreign income taxes	(65,669)	
Unearned premiums	55,347	
Ceded reinsurance premiums payable (net of ceding commissions)	22	
Payable to parent, subsidiaries, and affiliates	8,738	
Payable for securities	142,642	
Write-ins for liabilities:		
Contingency reserve	1,718,089	
Reserve for escheat checks and stale checks	34	
Total Liabilities		$1,862,554
Common capital stock	2,000,000	
Gross paid in and contributed surplus	13,613,876	
Unassigned funds (surplus)	(8,266,674)	
Surplus as Regards Policyholders		7,347,202
Total Liabilities and Surplus		$9,209,756

Commercial Loan Insurance Corporation
Summary of Operations
For the Year 2002

Underwriting Income		
Premiums earned		$ 94,027
Deductions:		
Other underwriting expenses incurred	$72,861	
Write-ins for underwriting deductions:		
Increase (decrease) in contingency reserve	47,014	
Total underwriting deductions		119,875
Net underwriting gain or (loss)		(25,848)
Investment Income		
Net investment income earned		(29,342)
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		(55,190)
Federal and foreign income taxes incurred		(63,888)
Net Income		$ 8,698

Commercial Loan Insurance Corporation
Cash Flow
As of December 31, 2002

Premiums collected net of reinsurance	$ 89,540		
Deduct:			
Underwriting expenses paid	65,693		
Cash from underwriting		$ 23,847	
Net investment income		271,302	
Deduct:			
Federal income taxes paid (recovered)		(11,453)	
Net cash from operations			$ 283,696
Proceeds from investments sold, matured, or repaid:			
Bonds		2,123,567	
Cost of investments acquired (long-term only):			
Bonds	1,105,108		
Miscellaneous applications	(142,642)		
Total investments acquired		962,466	
Net cash from investments			1,161,101
Cash provided from financing and miscellaneous sources:			
Net transfers from affiliates		8,738	
Cash applied for financing and miscellaneous uses:			
Net transfers to affiliates	18,571		
Other applications	5,715		
Total		24,286	
Net cash from financing and miscellaneous sources			(15,548)
Net change in cash and short-term investments			1,429,249
Reconciliation			
Cash and short-term investments, December 31, 2001			1,722,192
Cash and short-term investments, December 31, 2002			$3,151,441

Commercial Loan Insurance Corporation
Policyholders' Position Calculation
December 31, 2002

Surplus as regards policyholders		$7,347,202	
Contingency reserve		1,718,089	
Total policyholders' position			$9,065,291
Net minimum policyholders' position			
First Liens:			
Individual loans:			
Loan-to-value more than 75%	$662,930		
Total individual loans		662,930	
Minimum policyholders' position			662,930
Excess of total policyholders' position over minimum policyholders' position			$8,402,361

Commercial Loan Insurance Corporation
Reconciliation and Analysis of Surplus
For the Four-Year Period Ending December 31, 2002

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2002	2001	2000	1999	1998
Surplus, beginning of year	$7,338,555	$6,770,499	$5,993,152	$34,917,942	33,644,387
Net income	8,698	805,137	777,347	1,075,210	1,273,555
Change in net deferred income tax	(60,313)	1,701,600			
Change in non-admitted assets	60,261	(1,572,706)			
Cumulative effect of changes in accounting principles		5,649			
Surplus adjustments:					
Paid in		328,376			
Dividends to stockholders		(700,000)		(30,000,000	
Surplus, end of year	$7,347,201	$7,338,555	$6,770,499	$5,993,152	$34,917,942

Commercial Loan Insurance Corporation
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2002

The following is a summary of NAIC Insurance Regulatory Information System (IRIS) results for the period under examination. Exceptional ratios are denoted with asterisks. A discussion of the exceptional ratios may be found after the IRIS ratios.

	Ratio	2002	2001	2000	1999	1998
#1	Gross Premium to Surplus	1.0%	1.0%	2.0%	2.0%	0.0%
#2	Net Premium to Surplus	1.0	1.0	2.0	2.0	0.0
#3	Change in Net Writings	1.0	-18.0	-20.0	-14.0	-9.0
#4	Surplus Aid to Surplus	0.0	0.0	0.0	0.0	0.0
#5	Two-Year Overall Operating Ratio	0.0	0.0	0.0	0.0	0.0
#6	Investment Yield	0.0*	5.4	6.3	5.2	5.9
#7	Change in Surplus	0.0	8.0	13.0	-83.0*	4.0
#8	Liabilities to Liquid Assets	21.0	20.0	26.0	32.0	10.0
#9	Agents' Balances to Surplus	0.0	0.0	0.0	0.0	0.0
#10	One-Year Reserve Devel. to Surplus	0.0	1.0	-1.0	0.0	0.0
#11	Two-Year Reserve Devel. to Surplus	1.0	-1.0	0.0	0.0	0.0
#12	Estimated Current Reserve Def. To Surplus	0.0	0.0	0.0	0.0	0.0

IRIS ratio number 6 evaluates the yield on investments compared to annual average cash and invested assets. The company's unusual result in 2002 for ratio number 6 reflects the relatively low investment yield environment that prevailed in the financial markets in 2002.

IRIS ratio number 7 is an overall measure of the improvement or deterioration in the company's financial condition during the year. The unusual result in 1999 is due to the 82% decrease in surplus resulting from a $30 million dividend paid to its parent in that year.

Growth of Commercial Loan Insurance Corporation

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2002	$ 9,209,756	$1,862,554	$ 7,347,202	$ 8,698
2001	9,075,371	1,736,816	7,338,555	805,137
2000	9,098,110	2,327,611	6,770,499	777,347
1999	8,801,934	2,808,782	5,993,152	1,075,210
1998	38,589,937	3,671,995	34,917,942	1,273,555

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2002	$ 89,687	$ 89,565	$ 94,027	0.0%	133.8%	133.8%
2001	88,950	88,743	96,960	26.8	-407.8	-380.9
2000	108,381	107,669	120,688	109.6	-363.9	-254.3
1999	135,310	134,121	144,511	-5.2	-174.1	-179.3
1998	157,142	155,052	163,053	62.9	146.4	209.3

The company ceased writing new insurance business in 1985 and has been in run-off since that time. Premiums written have decreased during the years under examination as the existing book of policies expire or are terminated due to their non-renewal by the insureds. Expenses relative to written premiums have increased, as the revenue stream that supports the run-off operations is decreasing year-to-year. Surplus decreased from 1998 to 1999 due to a $30 million dividend paid to its parent. Currently the company does not plan to write any new business in the future. The company indicated that any changes regarding its intention to write new business would be filed with this office.

Reconciliation of Surplus per Examination

The current examination did not make any reclassifications of account balances or adjustments to surplus.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were two specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management and Control—It is recommended that the company's shareholders and board of directors conduct executive meetings and oversight of the affairs of the company in conformity to the company's articles of incorporation and by-laws. It is further recommended that the shareholders conduct meetings not less frequently than annually for the election of directors, and that directors conduct meetings not less frequently than quarterly, at which meetings the board exercise its authority to elect officers, review and approve or otherwise act upon company investment activity, and conduct such additional executive functions on behalf of the company as are permitted by the articles and by-laws and necessary for the executive management of the affairs of the company.

   Action—Compliance

2. Invested Securities—It is recommended that the company timely file with the NAIC Securities Valuation Office a Securities Acquisition Report for each newly acquired investment security, in compliance with the Purposes and Procedures Manual of the NAIC Securities Valuation Office.

   Action—Compliance

Summary of Current Examination Results

Bylaws

Examination review of the bylaws noted that the bylaws did not reflect the actual practices of the company and were not updated when PMI purchased the company. The following items were noted:

- The company's bylaws stated the principal offices shall be in Milwaukee, Wisconsin. This should be changed.
- The company's bylaws state that the annual meeting shall be held the first Monday in April. Review of the minutes indicated the annual meeting has been held in May.

It is recommended the company abide by or amend its bylaws to reflect actual practices of the company.

Executive Compensation

The examination review of the Wisconsin Report on Executive Compensation (Form 22-060) for 2002 noted that the company is not reporting all compensation as instructed and that the company is completing the NAIC Supplemental Compensation Exhibit in place of the Wisconsin Report on Executive Compensation annual supplement. It is noted that the directions for the NAIC Supplemental Exhibit and those for the Wisconsin Report of Executive Compensation vary slightly and the company should be reporting compensation to this office on the required annual supplement. The amounts reported on the form also excluded the amounts for executive stock options. It is recommended that the company complete the Wisconsin Report on Executive Compensation (Form 22-060) in accordance with its instructions.

Biographical Reports

Pursuant to s. Ins 6.52, Wis. Adm. Code, the biographical data relating to company officers and directors should be filed with this office within 15 days after such appointment or election. As part of the examination, biographical reports were requested for the CLIC board of directors as well as documentation from the company stating they were filed with this office pursuant to s. Ins 6.52, Wis. Adm. Code. Biographical reports were provided for the current directors however, they were completed during the fieldwork portion of this examination. In addition, the reports of the two newly elected directors in 2003 were not filed with this office within the 15 day time frame established by s. Ins 6.52, Wis. Adm. Code. It is recommended that the company file biographical reports on its directors within 15 days of election pursuant to s. Ins 6.52, Wis. Adm. Code.

Affiliated Agreements

TPG prepares a consolidated tax return for its subsidiaries pursuant to a tax allocation agreement. At year-end 2002, CLIC filed a consolidated tax return with TPG. Examination review noted that the tax allocation agreement was not amended to include CLIC as being a party to the tax allocation agreement. Pursuant to Statement of Statutory Accounting Principles (SSAP) No. 25, there should be an existing tax allocation agreement to file a consolidated tax return. The tax allocation agreement would also be subject to nondisapproval by the Office of the Commissioner of Insurance ("OCI") pursuant to the holding company laws of ch. Ins. 40, Wis. Adm. Code. Subsequent to fieldwork, the company made the appropriate filing with this office, including the tax allocation agreement and an amendment to make CLIC a party to the agreement.

In addition, the CLIC operates under a cost allocation agreement with PMI for services provided which is subject to nondisapproval by the OCI pursuant to ch. Ins 40, Wis. Adm. Code. This agreement was submitted for review in a Form D filing dated June 16, 2003, and was effective January 1, 2002. Section Ins 40.04 (2), Wis. Adm. Code requires that subject affiliated transactions be reported to the commissioner 30 days prior to the proposed effective date. In addition, this agreement was not included in the annual Holding Company Registration Statement (Form B) filed with this office. It is recommended the company comply with the holding company regulations of ch. Ins 40, Wis. Adm. Code in the future.

Custodial Agreement

Article VI, paragraph 1(a) of the custodial agreement between CLIC and BNY Western Trust Company stated that "the custodian's responsibility with respect to any securities or cash held by a subcustodian is limited to the failure on the part of custodian to exercise reasonable care in the selection or retention of such subcustodian in light of prevailing settlement and securities handling practices, procedures and controls in the relevant market." The definition of reasonable care is vague and this clause releases the subcustodian from indemnification to the insurer for any loss of securities as a result of negligence or dishonesty. The agreement only makes the custodian responsible for indemnification to the insurer if the subcustodian is an affiliate to the custodian. If the custodian were to place the securities with a non-affiliated custodian, no indemnification is provided. The company should amend its custody agreement to provide that the custodian indemnify CLIC for any loss of securities in the account as a result of the negligence or dishonesty of the officers or employees of custodian and subcustodian, or burglary, robbery, holdup, theft or mysterious disappearance, including loss by damage or destruction. It is recommended that the company amend its custodial agreement to provide indemnification against the securities that may be held by a subcustodian pursuant to the language suggested by the NAIC Financial Examiner's Handbook.

Investments

The company was not reporting the CUSIP number for its short-term investment on Schedule DA, Part 1 of the annual statement. It is recommended that the company complete Schedule DA, Part 1 in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

VIII. CONCLUSION

Commercial Loan Insurance Corporation's financial statements as of December 31, 2002, reported total admitted assets of $9,209,756, total liabilities of $1,862,554, and policyholders' capital and surplus of $7,347,202. No reclassifications or adjustments were made to surplus as a result of the examination.

PMI Mortgage Insurance Company purchased CLIC on August 6, 2001, from WMAC Investment Corporation. The company suspended writing new business in 1985, and its current business consists entirely of renewal coverages on previously written policies. As of December 31, 2002, the company had 45 policies in force.

The company complied with the prior examination recommendations. The current examination resulted in six recommendations as summarized on the following page.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Bylaws—It is recommended the company abide by or amend its bylaws to reflect actual practices of the company.

2. Page 21 - Executive Compensation—It is recommended that the company complete the Wisconsin Report on Executive Compensation (Form 22-060) in accordance with its instructions.

3. Page 22 - Biographical Reports—It is recommended that the company file biographical reports on its directors within 15 days of election pursuant to s. Ins 6.52, Wis. Adm. Code.

4. Page 22 - Affiliated Agreements—It is recommended the company comply with the holding company regulations of ch. Ins 40, Wis. Adm. Code in the future.

5. Page 23 - Custodial Agreement—It is recommended that the company amend its custodial agreement to provide indemnification against the securities that may be held by a subcustodian pursuant to the language suggested by the NAIC Financial Examiner's Handbook.

6. Page 23 - Investments—It is recommended that the company complete Schedule DA, Part 1 in accordance with the NAIC Annual Statement Instructions – Property and Casualty.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	**Title**
Ryan Hanson	Insurance Financial Examiner
Amy Wolff	Insurance Financial Examiner
Randy Milquet	Insurance Financial Examiner—Advanced

Respectfully submitted,

Danielle C. Rogacki
Examiner-in-Charge